



## **PUBLIC DISCLOSURE**

**June 21, 1999**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Citizens National Bank  
Charter Number 16076  
200 Forks of the River Parkway  
P. O. Box 6410  
Sevierville, Tennessee 37864**

**Comptroller of the Currency  
Nashville Field Office  
5200 Maryland Way, Suite 104  
Brentwood, Tennessee 37027**

**NOTE:** This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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## GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Citizens National Bank (CNB)** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of June 21, 1999. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.

**Institution's CRA Rating:** Citizen National Bank's CRA performance is rated **Outstanding**.

The rating is based on the following factors:

- < CNB's loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and assessment area credit needs. It averaged 82% during the eight quarters dating from June 30, 1997 through March 31, 1999.
- < A substantial majority of its loans and other lending activities are in the bank's assessment area. During 1997 and 1998, approximately 90% of the bank's loans were originated in its assessment area.
- < The distribution of credit reflects excellent penetration among individuals of different income levels (including low- and moderate-income) and reasonable penetration among businesses of different sizes. The bank's residential real estate lending approximated the demographics in all categories except low-income, where it was approximately half of the demographic. Approximately 50% of commercial loans were made to businesses with annual revenues less than or equal to \$1 million.
- < CNB took appropriate action in response to a substantiated complaint about its performance in meeting assessment area credit needs that was received during this evaluation period.
- < No violations of the substantive provision of the antidiscrimination laws and regulations were identified in the comparative analysis of loans that we performed.
- < The bank's wholly-owned community development corporation continues to actively participate in providing affordable housing for low- and moderate-income families in its

assessment area.

## **DESCRIPTION OF INSTITUTION**

Citizens National Bank (CNB) is wholly-owned by CNB Bancshares, Inc., a one-bank holding company that had total assets of \$307 million as of December 31, 1998. CNB is headquartered in Sevierville, Tennessee, and has one wholly-owned subsidiary, the CNB Community Development Corporation. Sevierville is located approximately 40 miles southeast of Knoxville, Tennessee, and straddles the western entrance to Pigeon Forge, Gatlinburg, and The Great Smoky Mountains National Park. Tourism is the major industry and dominates the local economy. The area has a theme park, country music and other theme theaters, and an abundance of outlet malls.

As of June 30, 1998, CNB had the largest market share of Sevier County deposits (24.86%). As of December 31, 1998 the bank's total assets were \$307 million. Net loans represented 72% of total assets. A significant portion of loans were classified as real estate loans (90%), with commercial loans representing 5%, consumer loans 4%, and other loans 1%. The bank's primary business focus is commercial real estate lending, particularly hotel/motel/resort, entertainment, and restaurant facilities, in keeping with the business focus of its assessment area.

As of the date of this review, the bank had nine full-service branches. Eight are located in Sevier County and one is located in Blount County. There are no concerns that would affect CNB's ability to meet community credit needs.

The bank's last CRA evaluation was performed as of May 5, 1997; its performance was rated Outstanding. This review covers loans originated and community development activities that occurred between January 1, 1997 and December 31, 1998.

## **DESCRIPTION OF ASSESSMENT AREA**

CNB has defined its assessment area (AA) as portions of the Knoxville, Tennessee Metropolitan Statistical Area (MSA) # 3840. More specifically, the assessment area includes all of Sevier County; adjoining census tracts 55 and 56.02 in Knox County; and adjoining census tract 113 in Blount County. The AA includes fourteen census tracts; three (3) moderate-income census tracts (21%) and eleven (11) middle-income census tracts (79%). There were no low- or upper-income tracts. The assessment area meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas.

As of the 1990 census, the population of the AA was 66,174. Owner occupied housing units totaled 19,284 or 64% of total housing units. Median housing value was \$61,719. The median

year that the housing was built was 1974, making the median age at that time 16 years. There were a total of 24,923 households, with 14.38% living below the poverty level. Median family income was \$27,107. As of 1998, the updated median family income was \$42,300.

### Assessment Area Demographics

| Families*              | Census Tract Count | Low Income Families | Moderate Income Families | Middle Income Families | Upper Income Families | Total Families   |
|------------------------|--------------------|---------------------|--------------------------|------------------------|-----------------------|------------------|
| Low Income Tracts      | 0                  | 0                   | 0                        | 0                      | 0                     | 0                |
| Moderate Income Tracts | 3 ( 21%)           | 1,136               | 952                      | 933                    | 848                   | 3,869            |
| Middle Income Tracts   | 11 ( 79%)          | 3,262               | 3,379                    | 4,022                  | 5,040                 | 15,703           |
| Upper Income Tracts    | 0                  | 0                   | 0                        | 0                      | 0                     | 0                |
| Total                  | 14 (100%)          | 4,398<br>(23%)      | 4,331<br>(22%)           | 4,955<br>(25%)         | 5,888<br>(30%)        | 19,572<br>(100%) |

\*Based on updated MSA's median family income of \$42,300.

As of June 30, 1998, the bank's competitors in Sevier County were three state-chartered, non-member banks; a federal savings association; and branches of three regional banks with national charters. Two of the state-chartered, nonmember banks are headquartered in Sevier County and each had approximately 20% of the deposits market share. The other institutions are headquartered in Knoxville, Nashville, or Memphis.

The major community credit need remains affordable housing for low-wage employees of the tourism business. This was identified in community contacts over the last several years and by a group of economists at a meeting of the fifteen-county Tennessee Valley Resource Agency in September 1998 (information obtained from Knoxville's daily newspaper: The News-Sentinel, May 30, 1999; article titled: "Sky's the Limit for Sevier County Growth").

### CONCLUSIONS ABOUT PERFORMANCE CRITERIA

#### Loan-To-Deposit Analysis

- < The loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and assessment area credit needs.

The bank's loan-to-deposit ratio averaged 82% for the eight quarters since the previous CRA evaluation (June 30, 1997 through March 31, 1999). The ratio ranged from 84% at December 31, 1997 to 79% at September 30, 1998. We selected five other financial institutions located within Sevier County or within the surrounding counties and considered those to be CNB's peers for the purposes of this evaluation. For quarter ending March 31, 1999, the peer group averaged 76% which is lower than CNB's 82%.

#### Lending in Assessment Area

< A substantial majority of loans and other lending related activities are in the bank's assessment area.

The following table illustrates the bank's loan originations within its assessment area. The residential mortgage information is from an analysis of the bank's Home Mortgage Disclosure Statements. The Commercial Loan information is from reports generated by the bank. As indicated earlier, real estate lending accounts for 91% of the bank's lending activities.

| Type of Loan  | 1997 Originations<br>Inside | 1998 Originations<br>Inside |
|---|-----------------------------|-----------------------------|
|   | % of Total Dollar           | % of Total Dollar           |
| Residential Mortgage*                                     | 99%                         | 92%                         |
| Commercial Loans<br>(including Commercial Real<br>Estate) | 78%                         | 84%                         |

\*Loans originated by CNB but later sold in the secondary market are not included.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

< The distribution of credit reflects excellent penetration among individuals of different income levels (including low- and moderate-income) and reasonable penetration among businesses of different sizes.

Residential Mortgage Lending: The distribution of borrowers for all residential mortgage lending was analyzed. Given the demographics of CNB's assessment area and the fact that major developers focus on commercial real estate development, the distribution is excellent. Among all residential mortgage lenders in the assessment area during 1997 that were supervised by Federal Financial Institution Examination Council (FFIEC) members, CNB ranked sixth (6th) with a market share of 5.19% of the total number of loans. At the time of our review, this data was not available for 1998.

|   |
|---|
| <p><b>Borrower Distribution: Residential Mortgage Lending</b></p> <p><b>1997 and 1998</b></p> |
|---|

|                             | Families Within Each Income Category | All FFIEC-Supervised Financial Institutions: % of Total # of Residential Mortgage Loans (1997) | Citizens National Bank: % of Total # of Residential Mortgage Loans (1997 & 1998) |
|-----------------------------|--------------------------------------|--|--|
| <b>Low-income</b>           | 23%                                  | 8%   | 11%  |
| <b>Moderate-income</b>      | 22%                                  | 17%  | 18%  |
| <b>Middle-income</b>        | 25%                                  | 25%  | 22%  |
| <b>Upper-income</b>         | 30%                                  | 41%  | 46%  |
| <b>Income not available</b> | 0%                                   | 9%   | 3%   |
| <b>Totals</b>               | 100%                                 | 100%   | 100%   |

Lending to Small Businesses: We verified and used an analysis of lending to businesses with \$1 million or less in annual revenues that was performed by the bank. During 1997, 85% of the number of business loans originated were made to businesses with annual revenues less than or equal to \$1 million and during 1998, 86% were made to businesses with annual revenues less than or equal to \$1 million. This exceeds the 77% of businesses in the assessment area in that category and reflects a good level of lending to businesses of different sizes.

Community Development (CD) Loans: During the evaluation period, CNB originated two CD loans in its assessment area totaling \$3.4 million. The loans financed two apartment complexes that were for the purpose of providing affordable housing to low- and moderate-income families. One apartment complex is located in Sevierville and the other is located in the adjacent town of Pigeon Forge.

#### Geographic Distribution of Loans

The bank's residential mortgage loans were equitably distributed throughout the assessment area. As indicated previously, there are no low- or upper-income census tracts in the bank's AA. Moderate-income census tracts comprise 21% of the AA and middle income 79%. During fiscal 1998, residential mortgage loan originations in moderate income tracts were approximately 34% of the total number volume during the evaluation period. Loans in middle income tracts represent approximately 66% of the total number of loans made during fiscal 1998. These lending percentages include multi-family housing.

#### Response to Substantiated Complaint

- < CNB took appropriate action in response to a substantiated complaint about its performance in meeting assessment area credit needs that was received during this evaluation period.

CNB received one complaint about its failure to grant credit. Based on a subsequent review of the facts, the loan was granted.

## **RECORD OF COMPLYING WITH ANTIDISCRIMINATION LAWS**

- < No violations of the substantive provisions of the antidiscrimination laws and regulations were identified.

We performed a fair lending comparative file analysis of home mortgage refinancing loans originated during 1998. The analysis focused on rates and terms granted to joint, married, white applicants compared to individual, white female applicants. We used standard agency examination procedures to perform the analysis.

## **COMMUNITY DEVELOPMENT INVESTMENTS**

CNB has established a community development corporation (CDC) to assist in meeting community credit needs. The CDC is wholly-owned by CNB. During the evaluation period CNB made an additional \$1.2 million investment in the CDC. As of year-end 1998, the bank's investment in the CDC totaled \$2.3 million.